



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
ESTILL COUNTY SHERIFF**

Calendar Year 2000

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ESTILL COUNTY SHERIFF

Calendar Year 2000

The Auditor of Public Accounts has completed the Estill County Sheriff's audit for calendar year 2000. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Fee account balances increased by \$1,919 from the prior calendar year, resulting in a cash surplus of \$3,712 as of December 31, 2000. Revenues increased by \$1,384 from the prior year and disbursements decreased by \$3,319.

Report Comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Maintain Proper Time Records And Pay Overtime As Earned
- The Sheriff Should Improve Internal Control Over Receipts And Disbursements
- Lack Of Segregation Of Duties

Deposits:

On December 5, 2000, \$68,733 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured.

CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dwight Arvin, Estill County Judge/Executive
Honorable Gary Freeman, Estill County Sheriff
Members of the Estill County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Estill County Kentucky, for the year ended December 31, 2000. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2000, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dwight Arvin, County Judge/Executive
Honorable Gary Freeman, Estill County Sheriff
Members of the Estill County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated June 21, 2001, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The Sheriff Should Maintain Proper Time Records And Pay Overtime As Earned
- The Sheriff Should Improve Internal Control Over Receipts And Disbursements
- Lack Of Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 21, 2001

ESTILL COUNTY
GARY FREEMAN, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2000

Receipts

KLEFPF Grant	\$	7,714
State Fees For Services:		
Finance and Administration Cabinet	\$	1,382
Cabinet For Human Resources	<u>890</u>	2,272
Circuit Court Clerk:		
Sheriff Security Service	\$	6,300
Fines and Fees Collected	5,550	
Court Ordered Payments	<u>918</u>	12,768
Fiscal Court		3,304
County Clerk - Delinquent Taxes		2,050
Commission On Taxes Collected		83,516
Fees Collected For Services:		
Auto Inspections	\$	3,692
Accident and Police Reports	938	
Carrying Concealed Deadly Weapon Permits	6,675	
Delinquent Tax Penalty Fees	17,832	
Serving Papers	7,621	
Miscellaneous	<u>2,855</u>	39,613
Interest Earned		1,496
Borrowed Money:		
State Advancement		<u>29,284</u>
Gross Receipts	\$	182,017

ESTILL COUNTY
 GARY FREEMAN, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2000
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	24,083
Part-Time Salaries		102
Other Salaries		28,384
Overtime Salaries		1,025
KLEFPF Salaries		6,358

Employee Benefits-

Employer's Share Social Security		4,381
Employer's Share Retirement		4,248
Employer Paid Health Insurance		2,589

Contracted Services-

Advertising		686
Computer Service		1,000

Materials and Supplies-

Office Materials and Supplies		1,864
Uniforms		1,059

Auto Expense-

Gasoline		2,038
Maintenance and Repairs		3,097

Other Charges-

Dues		1,311
Postage		241
Insurance		4,170

Capital Outlay-

Office Equipment		1,498
Vehicles		4,405

Debt Service:

State Advancement		29,284
-------------------	--	--------

Total Disbursements	\$	121,823
---------------------	----	---------

Net Receipts	\$	60,194
--------------	----	--------

Less: Statutory Maximum		56,482
-------------------------	--	--------

Excess Fees Due County for Calendar Year 2000	\$	3,712
---	----	-------

Payments to County Treasurer - May 17, 2001		3,712
---	--	-------

Balance Due at Completion of Audit	\$	0
------------------------------------	----	---

The accompanying notes are an integral part of the financial statement.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2000.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent.

ESTILL COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2000
 (Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 5, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$68,733 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 5, 2000.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county official's name	\$ 1,078,160
Uncollateralized and uninsured	<u>68,733</u>
Total	<u><u>\$ 1,146,893</u></u>

COMMENTS AND RECOMMENDATIONS

ESTILL COUNTY
GARY FREEMAN, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 2000

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On December 5, 2000, \$ 68,733 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

I understand.

The Sheriff Should Maintain Proper Time Records And Pay Overtime As Earned

KRS 337.320 requires the Sheriff to keep a record of (a) the amount paid each pay period to each employee; (b) the hours worked each day and each week by each employee; and (c) such other information as the secretary requires. KRS 337.285 requires the Sheriff to compensate employees for hours worked each week in excess of forty hours at a rate not less than one and one-half times the hourly rate at which they are employed. During our audit, we reviewed a sample of individual earnings records and time sheets and it appears that overtime as reflected on timesheets was properly documented and accounted for. However, on January 1, 2001, it appears that salary payments to make up for overtime worked throughout the year were made to the sheriff's deputies for which no documentation was maintained. We recommend the Sheriff maintain proper documentation for all payroll expenditures and pay overtime as earned in order to comply with KRS 337.285 and KRS 337.320 in the future.

Sheriff's Response:

I understand.

ESTILL COUNTY
GARY FREEMAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
Calendar Year 2000
(Continued)

The Sheriff Should Improve Internal Control Over Receipts and Disbursements

During our audit, we noted several deficiencies in internal controls over fee account receipts and disbursements. The Uniform System of Accounts in KRS 68.210 and Technical Audit Bulletin #93-002 established under the authority of 45 KAR 1:070 sets out internal control procedures for all county operations. We found that the Sheriff failed to meet minimum accounting requirements established under these authorities as evidenced by the following deficiencies:

- a. daily deposits are not being made
- b. significant lapse in time from when checks were written until they cleared the bank

We recommend the Sheriff improve internal controls over receipts and disbursements of the fee account by making daily deposits of receipts and distributing disbursements in a timely manner.

Sheriff's Response:

I understand.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lack Of Segregation Of Duties Is A Reportable Condition And A Material Weakness

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected officials control such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described is also a material weakness.

Sheriff's Response:

I understand.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Dwight Arvin, Estill County Judge/ Executive
Honorable Gary Freeman, Estill County Sheriff
Members of the Estill County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Estill County Sheriff for the year ended December 31, 2000, and have issued our report thereon dated. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Estill County Sheriff's financial statement for the year ended December 31, 2000, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral to Protect Deposits
- The Sheriff Should Maintain Proper Time Records And Pay Overtime As Earned
- The Sheriff Should Improve Internal Control Over Receipts And Disbursements

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Estill County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- Lack of Segregation of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is considered to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 21, 2001

